

Tucson Electric Power | UNS Electric, Inc.

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June 2, 2022

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: Notice of Compliance - Tucson Electric Power Company's 2020 Integrated Resource Plan ("IRP"), Action Plan Update. Docket No. E-00000V-19-0034.

Pursuant to the March 2, 2022, decision in Docket No. 78499, Tucson Electric Power Company ("TEP" or "Company") hereby submits its response on the Arizona Corporation Commission's ("Commission") requirements for its updated five-year Action Plan addressing whether near-term resource selections have been impacted due to changes in load forecast assumptions attributable to the COVID-19 pandemic. TEP also includes a summarized progress report on items within the current five-year Action Plan.

1. Updated five-year Action Plan addressing whether near-term resource selections have been impacted due to changes in load forecast assumptions attributable to the COVID-19 pandemic.

As described in the Company's letter submitted to this docket on March 12, 2021,¹ the primary drivers in TEP's retail customer energy usage continues to be seasonal weather patterns followed by changes in general economic conditions. More recently, a report by the University of Arizona's Economic and Business Research Center ("EBRC") observed that "Arizona's economy continues to recover unevenly from the pandemic".²

The EBRC report noted that the national forecast sets the stage for continued growth in Arizona. Overall, Arizona jobs and population are forecast to grow at a solid pace in the near term. The forecast calls for population growth to accelerate from 1.5% in 2022 to 1.6% in 2023, with the addition of 118,400 new residents by July 1, 2023. Most of that growth is driven by net migration. Solid population gains contribute to housing permit activity continuing at a high level, with 64,708 permits in 2022 and 62,452 permits in 2023.

Given this outlook, TEP's near term load forecast remains under 1%.³

While the Company does not anticipate that its underlying load growth will have a material change on its five-year Action Plan, the Company believes that near-term market

¹ <https://docket.images.azcc.gov/E000012217.pdf?i=1650056174544>

² <https://eller.arizona.edu/departments-research/centers-labs/economic-business-research/arizona-economic-outlook>

³ The Company has been approached by several large businesses looking to relocate their facilities away from large metropolitan areas to places like Arizona. TEP and UNS Electric continue to explore opportunities to facilitate these economic development activities for Arizona.

conditions will have a much bigger impact on TEP's near-term resource decisions.⁴ Specifically, increases in wholesale energy prices, the growing need for firm summer peak capacity within the region,⁵ global supply-chain restrictions, and the U.S. Department of Commerce anti-dumping investigation into imported solar panels⁶ will drive the technology selection, timing, and cost of proposals that TEP will receive in response to the Company's April 2022 all-source request for proposals, described further below.

2. Progress Report on TEP's five-year Action Plan

- ▶ **TEP will complete the first phase of its coal plant retirements when San Juan Unit 1 closes at the end of June 2022.**

With the end of both the coal supply agreement and operating agreements at the San Juan Generating Station, TEP is on track to retire Unit 1 and permanently cease coal-fired operations on June 30, 2022. With this retirement, the Company will have retired over 41 percent, or 605 megawatts ("MW"), of its coal-fired generation capacity since 2015.

- ▶ **Since the 2020 Integrated Resource Plan ("IRP") filing, TEP has added over 450 MW of new solar and wind projects through a combination of purchased power contracts and ownership, which has doubled the Company's renewable energy output. These resources include our first deployment of a utility-scale battery energy storage system capable of reducing peak demand by shifting solar energy output from off-peak to on-peak periods.**

Since submitting its IRP in June 2020, TEP has brought into service the following new facilities:

- Oso Grande Wind (250 MW) - *Owned*
- Raptor Ridge Solar (15 MW) – *Owned*
- Borderlands Wind (99 MW) – *Purchased Power Agreement ("PPA")*
- Wilmot Energy Center (100 MW solar and 30 MW storage) – *PPA*

With the addition of these new facilities, TEP expects to serve approximately 30 percent of its retail load on annual basis with renewable energy.

⁴ NERC's 2022 Summer Reliability Assessment warns that several parts of North America are at elevated or high risk of energy shortfalls this summer due to predicted above-normal temperatures and drought conditions over the western half of the United States and Canada. <https://www.nerc.com/news/Pages/Extreme-Weather-Heightens-Reliability-Risks-this-Summer.aspx>

⁵ The California Independent System Operator ("CAISO") Summer Loads and Resources Assessment for summer 2022 has determined there is currently an estimated 1,700 megawatt capacity shortfall from meeting the "1 event in 10-years" planning target. <https://www.caiso.com/Documents/2022-Summer-Loads-and-Resources-Assessment.pdf>

⁶ <https://www.federalregister.gov/documents/2022/04/01/2022-06827/crystalline-silicon-photovoltaic-cells-whether-or-not-assembled-into-modules-from-the-peoples>

- ▶ **TEP received forced majeure notices from Qualified Facilities (“QF”) project developers on 160 MW of solar capacity.**

Two 80 MW QF solar projects that were scheduled to go into service in late 2022 and early 2023 have been postponed by the project developer.⁷ At this time, it is unknown when these projects are likely to be completed and put into service.

- ▶ **The Company will initiate discussions with the ACC, employees, the International Brotherhood of Electrical Workers (IBEW), and leaders of the communities that will be impacted by reduced use and ultimate retirement of Springerville Generating Station (“SGS”) Units 1 and 2. TEP will also develop flexible coal supply alternatives that will support these operational changes as well as future environmental compliance options.**

As the operator of SGS, the Company has begun transition planning for the closure of Units 1 and 2, respectfully, in 2027 and 2032. TEP is working with community leaders, employee groups, the IBEW, and others to develop a plan that will address the needs of TEP employees and assisting the Springerville community in economic development activities.

For its employees, TEP formed an internal team to explore workforce transition, increased training, and education. For the community, TEP has been working with community leaders from Apache County, St. Johns, Eagar, and Springerville to develop a transition plan, perform economic impact studies, apply for grants, fund consultants, and participate in regularly-scheduled meetings. Key objectives for the community transition plans include transportation, infrastructure, housing, and education. TEP has also partnered with SRP to perform broader economic impact studies.

TEP has kept the communities apprised of Commission activities and opportunities to participate in the “Impact of the Closures of Fossil-Based Generation Plant on Impacted Communities” generic docket (Docket No. E-00000A-21-0010), as well as requested that Commission Staff include these communities for scheduled town halls and as task force members. TEP has communicated the details of town halls to our employees and communities, and has seen significant attendance and participation (roughly 200-400 attendees with 30-50 speakers from the community, including employees).

Within the generic docket, TEP has filed the letters listed below to continue our communication with the Commission on this important topic:

- July 9, 2021: Response regarding impact of closures on impacted communities⁸

⁷ See Docket E-01933A-21-0196.

⁸ <https://docket.images.azcc.gov/E000014580.pdf?i=1653320254087>

- December 28, 2021: Comments on procedural workshop⁹
- January 21, 2022: Response to Staff regarding town hall locations¹⁰

The Company also participated in the ACC Workshops held on January 6 and February 2, 2022, Task Force Subgroups, and the recent Town Halls in affected communities.

► **TEP will continue to implement cost-effective energy efficiency programs consistent with historical levels targeting 1.5 percent incremental energy savings over the prior year’s retail load in each year through 2024.**

On June 1, 2021, TEP submitted its 2022 Demand Side Management (DSM) Implementation Plan to Docket E-01933A-21-0182. TEP subsequently filed proposed changes to the plan that are pending Commission review and approval. Through cost-effective energy efficiency and load management programs, the Plan includes the means to achieve the Company’s above objective and will also result in reductions of peak demand and carbon dioxide emissions.

Further, TEP’s pending filing includes 22 new measures to its customer programs and introduces two new initiatives: Beneficial Electrification and an Innovative Customer Solutions Framework.

► **TEP joined the California Independent System Operator (“CAISO”) Western Energy Imbalance Market (“WEIM”) in May 2022.**

TEP successfully joined the WEIM on May 3, 2022.¹¹ TEP’s participation in the WEIM is expected to deliver tangible economic and environmental benefits. This will be accomplished through the WEIM’s regional coordination of power plant dispatch across a wide group of market participants. This market-based coordination optimizes unit dispatch and transmission scheduling to deliver the lowest-cost energy to WEIM members.

► **The Company is committed to procuring future resources through All-Source Requests for Proposals (ASRFPs) based on specific, identified system needs.**

The Company issued its first-ever ASRFP on April 19, 2022. The Company is seeking up to 300 MW of capacity resources to be in service preferably by May 1, 2024, but no later than May 1, 2025. In support of its long-term resource plan, the Company is also seeking up to 250 MW of supply- and demand-side clean energy resources. The Company has retained an independent monitor to ensure the ASRFP process is fair and competitive. Proposals are due by July 1, 2022.

⁹ <https://docket.images.azcc.gov/E000017170.pdf?i=1653320382373>

¹⁰ <https://docket.images.azcc.gov/E000017490.pdf?i=1653320382373>

¹¹ <https://www.westerneim.com/Documents/California-ISO-Welcomes-BPA-and-Tucson-Electric-Power-to-the-WEIM.pdf>

The Company is focused on acquiring new capacity resources to meet its future summer peak reliability requirements. TEP plans to provide updates to the Commission when it finalizes its negotiations on new resources. Negotiations for new projects are expected to be completed by year-end.

Sincerely,

/s/Lee Alter

Lee Alter
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